



Proposed Resolution – Democratic Reform

SASKATOON CO-OPERATIVE ASSOCIATION LIMITED

Proposed Resolution on Democratic Reform for Membership Consideration

“To authorize the Board of Directors to develop recommendations for Democratic Reform based on the Centre for the Study of Co-operatives report for approval by the membership at a future AGM.”

With this resolution proposal on Democratic Reform, members have access to the *Executive Summary and Recommendations* from the Centre of the Study of Co-operatives (see attachment).

Governance and Member Engagement at the Saskatoon Co-operative Association

Governance During CRS Amalgamations



Co-operative Retailing Chair in Co-operative Governance
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Centre for the
Study of Co-operatives

Executive Summary

Balancing governance decisions during the amalgamations of two co-operatives can be challenging. Two distinct organizations with their own cultures, histories, and contexts must manage a complex set of strategic relationships, come together on a shared vision of the future, and do all that while maintaining legitimacy with a larger, likely more diverse membership.

In early 2018, the Saskatoon Co-op Association asked the Centre for the Study of Co-operatives to conduct a study into what can be learned from other members of the Co-operative Retailing System (CRS) about how they changed their governance practices in and around amalgamations. Our research findings suggest there is no one-size-fits-all governance solution to the amalgamation process. Instead, the merging entities need to be mindful of:

- structural factors such as the type and size of the amalgamating co-operatives;
- historical factors such as prior experience with amalgamations; and
- contextual factors such as the underlying motivations and concerns behind the push to amalgamation.

Based on the first of these factors and drawing on our research results, we suggest that rather than differentiating retail co-operatives solely along the traditional rural/urban divide, it can be more profitable to think of members in terms of corporate/consumer and in terms of four distinct types of retail co-operatives: (i) *single community*, (ii) *dominant urban centre with outlying rural branches*, (iii) *medium/large urban matched with large rural*, and (iv) *polycentric regional*. We further suggest that with the amalgamation currently underway, the Saskatoon Co-op Association falls into the “dominant urban centre with outlying rural branches” category. We advance recommendations based on this categorization and the lessons that can be learned from our case studies of similarly structured co-operatives, bearing in mind that we must resist the temptation to simply borrow the associated practices. With this in mind, our three most important recommendations are:

- With respect to planning for the future, we recommend conceptualizing membership into consumer and corporate rather than urban and rural. Corporate includes farms and other businesses.
- With respect to ensuring ongoing buy-in from members, we recommend setting up a delegate structure, with delegates elected from different geographical locations (e.g., store locations could be used in this regard), from consumer and corporate members at large, and from other critical groups (e.g., youth, Indigenous). The delegate body would provide on-the-ground intelligence to the board. It might also be used to manage community donations.
- On the question of board selection, we recommend that the delegate body elect the board members. Board members would serve a three-year term and one-third of the members would be elected each year by a vote of all the delegates (thus board members are not representatives of any particular group). The board would have a minimum of nine members.

Introduction

In 2016, the Saskatoon Co-op Association (SCA) asked the Centre for the Study of Co-operatives (CSC) to conduct a governance and member engagement review of their co-op as they reviewed their current practices and prepared for the future of their co-operative. While that study was being completed, the SCA underwent several amalgamations that raised important governance questions such as, for example, what kind of changes might be needed to its board composition as a consequence of these amalgamations.

Over a period running from April 2018 to September 2018, the CSC conducted a literature review and held nine in-depth interviews resulting in five case studies focusing specifically on governance decisions before, during and after amalgamations. Over the same period, Dr. Brett Fairbairn was undertaking research for a new book on the broader Co-operative Retailing System and had conducted more than 50 additional interviews with senior leaders in the CRS system. While not overlapping entirely with the SCA interviews, CSC staff reviewed these interview transcripts for governance specific information to add to its own information-gathering efforts.

This report summarizes our findings, including five case studies discussed in the Appendix, proposes a typology of retail co-operatives and, based on that typology and our research, suggests recommendations for SCA as it rethinks its co-operative structure.

Motivations and concerns regarding amalgamation

Many CRS co-operatives have undergone some type of amalgamation process. Table 1 shows that while the pace of amalgamations slowed from the late 1980s through to 2007, it has accelerated again in the last 10 years. Our research suggests that retail co-operatives have undertaken these amalgamations in the context of continued rural outmigration, an increasingly competitive market comprised of competitors like WalMart and Home Depot, a challenging economic environment and the resulting search for economies of scale.

Table 1: Co-op numbers in CRS Co-operatives, 1977- 2017

Year	Number of Co-ops	Percent reduction since previous decade	Percent reduction since 1977
2017	195	29%	54%
2007	276	10%	35%
1997	307	9%	28%
1987	339	21%	21%
1977	427	—	—

Source FCL Annual Reports

To make more sense of these patterns and the underlying motivations, we draw on a 2011 CSC report by Lou Hammond Ketilson, Roger Herman and Dwayne Pattison entitled “The Impact of Retail Co-operative Amalgamations in Western Canada.” The report identified a familiar set of motivations behind amalgamation, all shaped by a shifting demographic, competitive and economic context. Smaller co-operatives are looking to maintain services in their communities, reduce out-

shopping, recruit and retain qualified personnel and gain access to capital. Larger or urban co-operatives are looking to increase their service offerings, close gaps in their trading area, and build co-operative membership. Building off the 2011 report and informed by our research, Table 2 summarizes the set of motivations behind amalgamations at small and large retail co-operatives.

Table 2: Motivations and Concerns Regarding Amalgamations		
	Smaller/Rural Co-ops	Larger/Urban Co-ops
Motivations	<ul style="list-style-type: none"> • Maintain co-op presence in community • Reduce out-shopping • Recruit and retain qualified personnel • Administrative and technological modernization • Gain access to capital 	<ul style="list-style-type: none"> • Increase commodity offerings or diversify • Economies of scale • Close gaps in trading area and better serve dual members • Build co-operative membership
Concerns	<ul style="list-style-type: none"> • Loss of control/autonomy • Impact at personal level • Culture match 	<ul style="list-style-type: none"> • Financial burden • Time/energy burden • Culture match

Source: Hammond Ketilson, L., R. Herman & D. Pattison. 2011. The Impact of Retail Co-operative Amalgamations in Western Canada. Occasional Paper. Centre for the Study of Co-operatives, Saskatoon.

There is one important part of the amalgamation story that has changed however. Whereas in the 2011 report, smaller retail co-operatives said they worried that amalgamation would lead to store closures, our research shows they now view amalgamation as a way of helping the co-operative stay viable and even increase its service offerings. In fact, we found very few recent examples of store closures following amalgamation, a situation we suspect is explained in part by FCL's improved ability to provide business and financial guidance throughout the amalgamation process.

If anything, our interviewees told us that the risk is in delaying amalgamation. If a small retail co-operative waits too long before initiating the process, its deteriorated balance sheet and aging assets are likely to deter a larger would-be partner. We identified two other reasons why an amalgamation might not go through. The first is a cultural mismatch, particularly in the area of management and operational practices. The second is a sense that staff at the smaller co-operative might lose their jobs, equity positions, status, or all of the above as a result of an amalgamation.

Types of co-operatives

Although co-operatives in the Co-operative Retailing System have traditionally been thought of as either being rural or urban, there are other ways of thinking about them – these different perspectives reflect the reality of how the amalgamations of the past have turned out. One of the most obvious impacts of amalgamations is a rise in the number of retailers that have multiple service locations. Table 3 shows that the number and percentage of co-operatives operating out of multiple

locations continues to increase. Many of these co-operatives have undergone multiple amalgamations.

Table 3: Percent of CRS Co-ops by number of service locations				
Year	1 Location	2-5 Locations	6-9 Locations	10 plus locations
2008	80%	18.5%	0.5%	1%
2018	56%	31%	6.5%	6.5%

Source: Calculations by author.

The retail co-operatives that have been created by amalgamation are differentiated in other ways besides the number of service locations they operate. Our research suggests there are four models of co-operatives currently in the CRS, each with its own governance structure: single community, dominant urban centre with outlying rural branches, medium/large urban matched with large rural, and polycentric regional.

The first type of co-operative are *single community co-ops*. These co-operatives are very much reflective of the co-operative association that would have been created in the 1920s through to the 1950s. They are centered around a single community, whether large or small, urban or rural. These co-ops may have one commodity line or many. While they may have opened branches in nearby communities, they have not undergone significant amalgamations requiring changes to their governance or operational structures. These co-operatives can be identified through their use of a recognizable community name or through a long-period of non-renaming. The board will mostly be members of the same community where the head office is located. Examples are the Calgary Co-op, or Red River Co-op.

The second type of co-operative has a *dominant urban centre and outlying rural communities*. These co-operatives are formed by the joining of a large urban co-operative with nearby smaller communities. For the urban co-operative, the amalgamation represents an opportunity to diversity its commodity offering by increasing its agricultural base. Rural co-operative gain administrative efficiencies and a greater service offering. Strategically, these co-operatives focus their future amalgamations on nearby, and smaller, single or polycentral community co-ops. The board will come primarily and sometimes exclusively from the larger urban location, although the economic base of the co-op may be very strong in the rural trading areas that were added as a result of amalgamation. Examples are Sherwood Co-op or Saskatoon Co-op.

The third type of co-operative has a *medium to large sized urban location that does not dominate its rural area*. They have either undergone many amalgamations over time or were formed through the amalgamation of an urbanized co-operative with a previously amalgamated set of rural co-operatives. Future amalgamations are focused on closing gaps in trading areas, and growth is focused on expanding service offerings in communities within the service area. Although there is a main, urban centre in the trading areas of these co-operatives, and the centre of operations is located there, the selection of the board, or other representation models, ensure the balance of power is shared between the urban and rural trading area. Examples are Central Alberta and Lake Country.

The fourth type of co-operative is *polycentric* and regionally focused in its operations. It lacks an identifiable urban centre and may contain many centres of a similar size. Amalgamations will have been ongoing over time with similar sized co-operatives joining together, or successive smaller co-ops joining the larger amalgamated organization. Future amalgamations will focus on neighbouring

single community co-operatives and growth strategies will include closing gaps in the trading area. Although the centre of operations in these co-operatives will be located in one town, the regional focus ensures the board contains geographical representation, often as a feature of its governance arrangements. Examples are Pembina Co-op and South Country Co-op.

Table 4 presents a first attempt to categorize CRS co-operatives according to these four types, bearing in mind that a full investigation into the underlying governance structures – and therefore a more definitive categorization – is beyond the scope of this project.

Table 4: Preliminary Assessment of CRS Co-op Type				
Single Community	Dominant Urban	Urban Non-Dominant	Polycentric	Unknown
70%	10%	3%	14%	2%

Source: Author calculations.

Table 4 shows that single community co-ops are the most prevalent kind of co-operative in the system. We believe that the creation of polycentric and dominant urban models resulted from amalgamations, although more in-depth study over a longer period of time is required to fully test this belief.

Table 5 summarizes our tentative identification of the motivations and concerns behind the creation of these different types of co-operatives.

Amalgamation Dynamics

This categorization of retail co-operatives helps us think through the likelihood of future amalgamations given the motivations and concerns that have shaped their historical trajectories. This section looks at some of the dynamics around amalgamation by and across the different types of co-operatives particularly from the perspective of governance.

Single co-operatives in many ways have the greatest need to amalgamate to ensure continued competitive provision of service given a changing demographic, economic and competitive landscape. Our research shows that for many co-operatives, the defining moment around the amalgamation question is when the general manager retires. If the co-operative has not carefully nurtured a replacement through internal promotion, the co-op is likely to find it very difficult to attract the calibre of management required to operate successfully. As a result, the board and management of these co-operatives may seek an amalgamation; the alternative is to simply close the co-operative if no willing partner is found.

For the dominant urban centre or urban non-dominant centre co-operative, the decision to proceed with amalgamations will depend on the time and energy required to undertake the amalgamation, the financial situation of the co-operative that is seeking amalgamation and the conversation around governance practices. These co-operatives may, for example, be amenable to amalgamations with smaller or single co-ops if these do not require a major re-evaluation of policies, procedures or

board representation and the co-operative can expand its membership, commodity offerings and open new markets by closing off trading area gaps. On the other hand, these co-operatives will be wary of amalgamations with urban centre-type co-operatives (dominant or not) because of the heightened risk of losing control. Finally, amalgamations within and between these two types of co-operatives, while unlikely, may result in polycentric models if neither wants to give up power.

Table 5: Motivation and Concern by Type of Co-op.			
Type of Co-operative	Defining Features	Motivations for Amalgamation	Concerns Leading To/With Amalgamation
Single Community	<ul style="list-style-type: none"> Centered around one primary community or a few communities Static name or community-based name 	Large Single Community	
		<ul style="list-style-type: none"> Increase commodity offerings or diversify Economies of scale 	<ul style="list-style-type: none"> Financial burden Time/energy burden
		Small Single Community	
		<ul style="list-style-type: none"> Administrative/technical modernization Economies of scale Maintain co-op presence Recruit/retain personnel 	<ul style="list-style-type: none"> Loss of control/autonomy Impact at personal level
Dominant Urban	<ul style="list-style-type: none"> Identifiable urban centre, few or growing outlying communities Board primarily urban 	<ul style="list-style-type: none"> Increase commodity offerings or diversify Better serve dual members Build co-operative membership 	<ul style="list-style-type: none"> Time/energy burden Culture match
Urban Non-dominant	<ul style="list-style-type: none"> Identifiable urban centre, many rural or outlying communities Market activity equal outside as inside urban area May have geographic board, may have other considerations built in 	<ul style="list-style-type: none"> Increase commodity offerings or diversify Close gaps in trading area and better serve dual members Build co-operative membership 	<ul style="list-style-type: none"> Time/energy burden Culture match
Polycentric	<ul style="list-style-type: none"> No identifiable urban centre Formed through successive amalgamations Most likely to have geographically defined boards 	<ul style="list-style-type: none"> Increase commodity offerings or diversify Close gaps in trading area and better serve dual members Build co-operative membership 	<ul style="list-style-type: none"> Time/energy burden Culture match

Source: Interviews.

Polycentric co-operatives are much more likely to amalgamate single co-operatives, or co-operatives with few branches because they already have geographically representative boards where power in the governance model is shared among the locations of former single co-operatives. It is unlikely that a polycentric co-operative would amalgamate with a dominant urban co-operative unless there is a continued sharing of control using the polycentric model.

Table 6 highlights some of the main considerations of a co-operative that is considering amalgamation, and how those considerations may look different depending on the type of co-operative with which they are considering amalgamating.

With the exception of single community co-operatives, we expect the pace of amalgamation among co-operatives to slow. As co-operatives grow in size (dominant, non-dominant, policycentric) and lock into their governance practices, the costs of further amalgamations is likely to grow (both directly and in terms of opportunity costs) relative to the potential gains.

Governance Implications

We now turn to a discussion of governance arrangements by type of retail co-operative. We define governance as: “the set of formal and informal arrangements by which power is allocated and exercised in any system with interdependent actors (e.g., a society, market, network, or organization).¹ The short form of this definition is “who gets to decide what”. Governance structures have to address three challenges to ensure properly functioning organizations. These are:

1. **Strategic Interdependencies.** Governance structures — i.e., the allocation of authority — must ensure that the various stakeholders (e.g., members, employees, managers, board members, community members) work efficiently and effectively both individually and in groups.
2. **Cognitive View of the Future.** Governance structures must ensure that there are sufficiently diverse and informed views of the future to adequately position the organization for a rapidly changing economic and social environment.
3. **Legitimacy.** Governance structures must ensure that the decisions made by those in positions of power and authority in the organization are viewed as legitimate and acceptable by the various stakeholders.

There are generally conflicts with how any governance structure deals with these three challenges, and each co-operative has different pressures to consider when determining their governance structure. Some governance structures are more effective at addressing strategic interdependencies and legitimacy, while being less effective at dealing with a cognitive view of the future. Others may provide for a view of the future, but not manage legitimacy very well.

¹ This definition is based on Fulton, M., D. Pohler & B. Fairbairn. 2015. The Political Economy of Good Co-operative Governance. Paper presented at ICA Research Conference, Paris.

Table 6: Amalgamation Considerations by Co-operative Type

Type of Co-op	Seeking Amalgamation With			
	Single Community	Dominant Urban	Urban Non-Dominant	Polycentric
Single Community	Loss of control/autonomy Culture	Expansion of membership and commodity offerings	Expansion of membership Culture Financial	Culture Financial
Dominant Urban	Administrative and technical modernization Economies of scale Maintain co-op presence	Expansion of membership Loss of control Culture Financial	Expansion of membership Loss of control Culture Financial	Culture Financial
Urban Non-Dominant	Administrative and technical modernization Economies of scale Maintain co-op presence Representation	Expansion of membership Loss of control Culture Financial	Expansion of membership Loss of control Culture Financial	Culture Financial
Polycentric	Administrative and technical modernization Economies of scale Maintain co-op presence Representation	Expansion of membership and commodity offerings Culture Time/Energy Burden	Expansion of membership Culture Time/Energy Burden	Culture Time/Energy Burden

Since different co-operatives face these governance challenges in different ways and there are conflicts among the governance arrangements that would address these challenges, the governance structure that is best for one co-operative is not likely to be the best one for another co-operative. Indeed, each co-operative needs to determine the challenges that are the most critical and then settle on a governance structure that answers them. In an amalgamation process, management and the board need to be mindful of how they manage these three challenges. With respect to amalgamations among retail co-operatives, the two major challenges are around alignment over a shared view of the future and maintaining legitimacy. The challenges around interdependencies tend to flow from these two considerations.

From a cognitive frames perspective, the decision to proceed with an amalgamation will be strongly influenced by the degree to which the two entities can arrive at a shared understanding of future challenges and opportunities. We might expect this process to be relatively straightforward in the case of a single community co-operative joining with a like entity, assuming they have roughly similar organizational histories and culture. On the other hand, a rural single community co-operative may find it challenging to arrive at a shared view of the future when dealing with a dominant urban co-operative that does not fully understand rural dynamics or sensitivities.

From a legitimacy perspective, the amalgamation will only proceed if it is perceived as fair by key stakeholders, including management, employees, and board members. This means, among other things, having a shared understanding of the resulting board representation, participation at AGMs, and member communications. Polycentric retail co-operatives for example may find it somewhat easier to merge their operations given their shared view of what constitutes a “legitimate” governance structure built on geographic representation.

It is also important to nest consideration of these challenges from the perspective of both past experience and relative power balances. When a larger co-operative is adding a smaller co-operative to its operations, the larger co-operative will generally have the power to set rules based on its assessment of the future. The smaller co-operative has the choice to abide by the rules and amalgamate, or not. When two equally-sized co-operatives amalgamate, the negotiations are likely to be more balanced, with both parties needing to arrive at a shared understanding of future challenges and opportunities. They then need to build the governance structure with that end in mind.

Interestingly, we did not identify any dramatic changes in the governance models of our case-study co-operatives during or after an amalgamation. We suspect this is because amalgamations among co-operative retailers only tend to proceed if there are shared values, purposes, cultures and governance models. To some extent, this alignment may also be because all the co-operatives are in the CRS and consequently take part in common governance training and other programs designed to support their organizations. For example, FCL’s training material clearly defines the board’s role as strategic, with the CEO or general manager focused on operationalizing the direction set by the board.

There also appears to be a degree of path dependency at play. Path dependency expresses the idea that once on a path, deviation from that path is unlikely, since starting a new path is costly. Thus, in the absence of major disruptions, organizations carry on in a similar way to how they have in the past. In the case of amalgamations among retail co-operatives, our research shows that the trajectory and shape of an amalgamation today is deeply shaped by past amalgamations. If past amalgamations split board representation geographically for example, then it is likely this will shape the outcome of future amalgamations (e.g., see our polycentric discussion earlier).

Lessons from the Case Studies

A careful review of the case studies in the Appendix underlines a key over-arching point, namely that amalgamating co-operatives have not followed one model. This suggests there is no best practice that is followed; instead, the amalgamating co-operatives must determine their governance solutions based on their unique circumstances (including what they have done in the past). That does not mean there is nothing to learn from other co-operatives that have gone through amalgamation. Quite the opposite.

By paying careful attention to how the amalgamating parties addressed and overcame the three governance challenges, we are able to organize the recommendations that emerged from our interviews. Table 7 summarizes our findings.

Table 7: Amalgamation Challenges and Solutions

Challenge Area	Suggestion Raised	Considerations Raised
Cognitive View of the Future	Create board skills matrix and identify candidates	Requires self and peer evaluation.
	Board knowledge in specific commodity	Make part of skills matrix if it exists, how much knowledge is required?
	Large market needs to learn the small market — can be done through associate board members, committees	Will you get the input if not a formal board member?
	Non-voting associate board member rather than full board member	Will they continue to come? Will their commitment be there?
	Outgoing director helps recruit new director	
	Consider Consumer/Corporate not Urban/Rural	
Legitimacy	Districts that are moveable for geographic representation	Who decides when and where to move districts?
	Form geographic quadrants if urban is in the middle and split among the quadrants, or one larger community in each quadrant	Better chance of blending urban/rural areas — will it get representation from both? Will directors have skills required?
	Delegate Structure	Cost to support the structure, since it is necessary to find more individuals willing to be involved
	Mechanism for voice at local retails	Need a system to pass on concerns and suggestions to the appropriate level in the co-op
	Information meetings at locations	Cost and does attendance warrant?
	Online Voting	Possible manipulation of vote — easy to mobilize special interest groups.
	Don't think about urban and rural, think about consumer and commercial	
	Reduce both boards to a similar size before amalgamation	Boards choose who to put forward, may not build 'best' board
	Rotate location of AGM	Cost, does it improve attendance?
Strategic Interdependencies	No two board members from same area	Are there enough people interested in running to do this?
	Communicate with employees	Time and energy, consistent strategy, and messaging.
	Member relations committee	Energy and cost — are people willing to sit on a volunteer board to provide input?
	Community donations to all communities	Have to centralize, or have excellent communication.

Some additional suggestions outside the control of the individual co-ops that came through the research were for FCL to add expertise on the governance side by having governance specialists that rotate through all the boards providing cross-knowledge, education and training on the governance side. Respondents indicated that support like this is very strong on the operations side of the organization, but is missing on the governance side.

Recommendations for the Saskatoon Co-op Association

The Saskatoon Co-op Association can be conceptualized as a single community co-operative transitioning to a dominant urban co-operative with the addition of more rural areas. Our research suggests that when undergoing an amalgamation, these co-operatives are focused on questions around control/autonomy, matching cultures, expanding the membership and commodity offerings.

From the perspective of our case studies, SCA most closely resembles Sherwood Co-op. While it may be tempting to copy its approach to governance in an amalgamation, we need to be mindful that what works in one co-operative may not work well in another. For example, whereas Sherwood created up to two “associate director” non-voting seats on its board to ensure representation from its single community co-ops, we recommend that SCA allocate two board seats to its partner community co-operatives (one for each the two communities) to ensure strong representation from the corporate members who tend to dominate in these areas.

With that in mind, Table 8 summarizes our recommendations, which are made with an eye towards balancing the concerns of both the SCA and the amalgamating co-operatives.

Table 8: SCA Recommendations, Post Amalgamation	
Governance Challenge	Recommendation
Cognitive View of the Future	Reconceptualize membership into consumer and corporate rather than urban and rural. Corporate includes farms and other businesses. This will more closely align the strategic input on the board with the membership types.
	Create and use a board functional skills matrix to identify gaps and offer appropriate training to designated board members to address those gaps. The skills matrix could also be used to recruit new board members.
	Make behavioural ability a key requirement for all board members. Develop a program to provide training in behavioural ability to board members. Use <i>both</i> self and peer evaluation of board members on an annual basis to identify skill gaps and behavioural ability.
	Have nomination committee use greater efforts earlier in the election cycle to recruit possible candidates.
Legitimacy	Set up a delegate structure with delegates elected from different geographical locations (e.g., store locations could be used in this regard), from consumer and corporate members at large, and from other critical groups (e.g., youth, Indigenous). The delegate body would provide on-the-ground intelligence to the board. It might also be used to manage community donations.
	When amalgamations occur, add delegates to the delegate body.
	While not an immediate priority, SCA should sound out its membership about whether there is any appetite for a name change to better reflect its expanded geographic reach.
	Host open community information meetings in the amalgamated community for a period after the amalgamation.
	Continue to host AGM in Saskatoon and require in-person attendance to vote. The commitment of attending a meeting acts as a proxy for commitment to understanding the needs of the co-operative.
Strategic Interdependencies	The delegate body would elect the board members. Board members would serve a three-year term and one-third of the members would be elected each year by a vote of all the delegates (thus board members are not representatives of any particular group). The board would have a minimum of nine members.
	Keep branch employees in outlying areas well informed and included in decision-making to the same level as city counterparts to sustain morale and work effort.